

## Message Text

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 2546

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E.O. 11652: GDS

TAGS: ETRD, RP

SUBJECT: PHILIPPINE ECONOMIC TREATY

REF: STATE 45630

1. IN OUR VIEW, GOP'S APPROACH TO ECONOMIC NEGOTIATIONS HAS BEEN HESITANT--NOT TO SAY SKITTISH--FOR BOTH TACTICAL AND MORE FUNDAMENTAL REASONS. ON THE TACTICAL LEVEL, THERE DOES APPEAR TO BE GENUINE CONCERN, PARTICULARLY ON THE PART OF VIRATA, THAT ELECTION YEAR PRESSURES WILL IMPOSE CONSTRAINTS ON U.S. ADMINISTRATION, AND THAT PHILIPPINES CAN GET MORE IF THEY WAIT. RELATED TO THIS IS WORRY THAT USG MAY NOT BE PREPARED TO GIVE ANYTHING. AMBASSADOR WILFREDO VEGA, FOR EXAMPLE, CAME BACK TO MANILA FOR G-77 MEETING CONVINCED THAT, IN GATT MTN TROPICAL PRODUCTS CONTEXT, U.S. WOULD BE UNWILLING TO OFFER ANYTHING BUT ABACA. NEWS CONTAINED STATE 048441 THAT OFFER LIST WILL INCLUDE PRODUCTS IMPORTANT TO PHILIPPINES, SPECIFICALLY HARDWOOD PRODUCTS AND COCONUT OIL, SHOULD THEREFORE BE HELPFUL. IN THIS CONNECTION, THERE ARE SOME INDICATIONS THAT GOP'S THINKING IS NOW EVOLVING IN DIRECTION OF TALKS. FINALLY, THERE HAS BEEN BELIEF THAT IN BILATERAL CONTEXT GOP MAY HAVE TO GIVE MORE IN RETURN FOR U.S. CONCESSIONS THAN IN MULTILATERAL CONTEXT OF GAT-MTN WHERE DEVELOPED STATES ARE UNDER SOME CONSTRAINT NOT TO SEEK OFFSETTING CONCESSIONS. IN THIS CONNECTION, TOO, THERE ARE NOW INDICATIONS THAT GOP MAY PERCEIVE

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ADVANTAGES TO BILATERAL NEGOTIATIONS.

2. MORE FUNDAMENTALLY, DEPARTMENT WILL HAVE SEEN OTHER REPORTING TO EFFECT THAT, WHILE MARCOS VIEWS ECONOMIC TALKS WITH SOME URGENCY, CONSISTENT WITH HIS UNDERSTANDING WITH PRESIDENT FORD, TECHNICAL LEVEL OF GOP HAS FELT IT LACKED FACTUAL BASIS ON WHICH TO PREPARE A POSITION. THIS REPORTING IS CONSISTENT WITH IMPRESSION WE GAINED IN EFFORTS WE HAVE BEEN MAKING OVER PAST SEVERAL WEEKS TO SMOKE OUT PHILIPPINE DESIDERATA. IN THIS EXERCISE, NOTHING HAS EMERGED EXCEPT FOR OBVIOUS AND WELL-KNOWN INTEREST IN CONCESSION ON TROPICAL HARD WOODS AND COCONUT OIL. ALSO, THERE IS GENUINE CONCERN, PARTICULARLY ON THE PART OF NATIONALISTS SUCH AS VIRATA, THAT INVESTMENT TREATY SHOULD NOT INFRINGE ON PHILIPPINE SOVEREIGNTY, THUS THE DEBATE OVER "NATIONAL TREATMENT" AS OPPOSED TO "NON-DISCRIMINATION", AND THE DEPARTMENT WILL HAVE SEEN REPORTING INDICATING THAT IN THE CONTEXT OF THE TAX TREATY VIRATA IS UNHAPPY EVEN WITH THE LATTER TERM. FINALLY, THERE IS BASIC AND PERSISTING FEAR THAT IN ECONOMIC NEGOTIATIONS WITH BIG, SOPHISTICATED U.S., LITTLE, UNSOPHISTICATED PHILIPPINES WILL LOSE, AND ANYONE ASSOCIATED WITH SUCH NEGOTIATION WILL BE CRITICIZED. THIS CONCERN IS NON THE LESS REAL FOR BEING NAIVE AND MUST BE KEPT IN MIND BY U.S. NEGOTIATIONS.

3. WE UNDERSTAND CONCERN, PARTICULARLY ON PART OF OTHER WASHINGTON AGENCIES, WITH LANGUAGE THAT DEVIATES FROM LONG-STANDING U.S. POLICY OF INSISTING ON "NATIONAL TREATMENT", BUT WE HOPE PROBLEM MAY BE ONE OF SEMANTICS AND BELIEVE WE SHOULD BE ABLE TO ACCEPT SOME DILUTION OF THE TERM ITSELF. FORMULATION SUCH AS THAT CONTAINED IN ENCLOSURE TO WILLNER LETTER TO CHENEY OF FEBRUARY 17 APPEARS MOST CONSTRUCTIVE TO US, ALTHOUGH WE WOULD OMIT FALL-BACK LANGUAGE RELATED TO EVENTUAL "PHILIPPINIZATION".

4. WE NOTE SUGGESTION THAT ABSENCE OF TREATY MAY NOT BE MATTER OF GREAT CONCERN TO NEW YORK BUSINESS COMMUNITY, AND WE AGREE THAT WE COULD PROBABLY GET ALONG WITHOUT AN INVESTMENT TREATY. HOWEVER, THIS APPEARS TO US TO BE SOMEWHAT INEQUITABLE IN TERMS OF TARIFF TREATMENT PHILIPPINES EXPECTS FROM US; IF WE ARE GOING TO GIVE CONCESSIONS, WE SHOULD

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GET SOMETHING IN RETURN. CERTAINLY AS FAR AS OUR LOCAL BUSINESS COMMUNITY IS CONCERNED (SOME MEMBERS OF WHICH ARE CURRENTLY EXERCISED OVER WHAT THEY PERCEIVE AS GOP WELSHING ON UNDERSTANDINGS RELATED TO TERMS FOR LAND DIVESTMENT), THERE IS SOME VOCALIZING AGAINST UNREQUITED GIVE-AWAY. (INCIDENTALLY, AMCHAM IS NOW WORKING ON POSITION PAPERS AND WE SHOULD HAVE THE BENEFIT OF THEIR VIEWS SOON.)

5. WE ARE NOT AT THE MOMENT ABLE TO BE MORE SPECIFIC WITH RESPECT TO TERMS. WE DO BELIEVE, HOWEVER, THAT IF CONTROVERSY OVER "NATIONAL TREATMENT-NON-DISCRIMINATION", ETC. IS MORE THAN SEMANTIC AND GOP IS LIKELY TO BUCK ANY RESTRICTIONS ON ITS FREEDOM OF ACTION AS INFRINGEMENT OF SOVEREIGNTY, IT WOULD BE WELL TO CLARIFY THIS IN PRESENT ROUND. ANY FUZZINESS WHICH MIGHT LEAD TO SUBSEQUENT DIFFERENCES IN INTERPRETATION COULD GIVE RISE TO DIFFICULTIES WORSE THAN THOSE CREATED BY ABSENCE OF TREATY.

6. TO SUM IT ALL UP, WE BELIEVE WE CAN DETECT AN EVOLUTION IN GOP THINKING AS PASSIVENESS OF VIRATA AND TECHNICIANS GIVES WAY TO MORE ACTIVE APPROACH OF THOSE SUCH AS MARCOS AND VEGA. WE MIGHT EVEN BE ASKED TO MEET IN MARCH, ALTHOUGH AT WHAT LEVEL IS UNCLEAR AND IN ANY CASE SUCH TIMING IS AT THIS LATE DATE PROBABLY UNREALISTIC. HOWEVER, WE DO BELIEVE THE GOP DOES NOW INTEND TO PROCEED WITH ECONOMIC TALKS THIS YEAR AND THAT ADVANTAGES OF DOING SO ARE BECOMING CLEARER TO THEM.  
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